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SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, OCTOBER 9-15, 2009

11. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period October 9-15, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

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INDEC announces a 0.7% September m-o-m CPI  
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12. (SBU) National statistics agency INDEC announced October 14 that the September CPI increased 0.7% m-o-m, about half the consensus private source estimate of true inflation of around 1.3% m-o-m. Inflationary pressures in September were widespread. The main increases were in clothing (1.5% m-o-m), education (1.1 m-o-m), food and beverages (0.9% m-o-m), and equipment and house maintenance (0.8% m-o-m). According to INDEC, the accumulated CPI increase for the first nine months of the year was 5%, compared to private estimates of about 10-15%. INDEC's wholesale price index (WPI) increased 0.8% m-o-m in September, for a total of 6.6% in the first nine months of 2009.

13. (SBU) Despite INDEC's August CPI announcement, which was higher than the market consensus and caused many to think that INDEC was attempting to address the lack of credibility of its reporting by gradually improving its accuracy, September's announcement suggests that there has been no fundamental change in INDEC's approach. On the positive side, however, September's statistics do recognize a large increase in the politically-sensitive food and beverages sub-index, in contrast to previous months, when food and beverages price increases were substantially understated.

14. (SBU) According to October 15 press reports, Economy Minister Boudou said that "there is no doubt that it's necessary" to have multiple CPIs, adding that "all countries have this." La Nacion noted that the U.S. has multiple indexes, although only one is considered the official CPI. Boudou added, "In every country where a CPI exists, like Argentina, they measure a basket for the lowest two deciles of the population. Therefore, it's reasonable to hear it said that [the CPI] doesn't represent some sectors" of the population.

15. (SBU) Di Tella's index of consumer confidence fell to 39.0 in October from 40.0 in September, largely as a result of consumers being less optimistic about future economic conditions and less willing to spend on durables and real estate. This was the third consecutive fall in the consumer confidence index, reversing the April - July recovery off of its March 2009 low of 37.5. The survey's measure of consumers' willingness to purchase durable goods and real estate fell to 26.8 in October from 29.2 in September, as

did the measure of consumers' perceptions about the current macroeconomic situation, which declined to 43.8 in October from 45.0 in September. In contrast, the index's measure of consumers' perception about their own economic situation rose slightly to 46.5 in October from 45.9 in September. This general deterioration of consumer sentiment suggests that consumer spending may remain weak in the third quarter of 2009, and possibly in the fourth as well, following a second-quarter decline of 1.8% y-o-y in real terms.

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GoA reportedly has debt transaction paperwork for SEC  
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16. (SBU) On October 15, the Cronista Commercial daily reported (without quoting any source) that the Financial Secretariat in the Ministry of Economy, headed by Finance Secretary Hernan Lorenzino has all of the paperwork needed to move ahead with the reopening of the 2005 debt restructuring prepared and ready to file with the U.S. Security and Exchange Commission. This is not the first time in recent weeks that the press reported that the Ministry was prepared to move ahead with the SEC filing. On September 29, a Bloomberg report stated that an unnamed GoA official said that the GoA had begun filing paperwork with the SEC. However, this report was later denied by the Ministry of Economy. See Buenos Aires 1129 for Citibank Argentina's views on the potential for a holdout deal.

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GoA subsidies increased 12% through September  
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17. (SBU) According to the Argentine Association of Budget and Financial Administration (ASAP), public sector subsidies increased

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12% y-o-y in the first nine months of the year to ARP 25 billion. Transfers to the energy and agricultural sectors declined, but resources devoted to transportation and the recently state-purchased airline Aerolineas Argentinas increased. Private analysts estimate that subsidies may reach ARP 37 billion for the whole year (about 3.3% of GDP). The 2010 Budget bill calls for an ARP 4 billion decline in subsidies, mainly due to a projected reduction of energy transfers. Energy subsidies currently represent 40% of total subsidies, followed by transportation at 28%.

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Large drop in global purchases of main Argentine crops  
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18. (SBU) The Institute for Economic Studies of the Argentine Rural Producers Association (Sociedad Rural Argentina or SRA) estimated in a report published this week that direct global purchases of the 2009/2010 harvest of the four major Argentine crops (soybeans, corn, wheat, and sunflower) will decline 32.6% to \$ 4878.5 million from the previous year. This estimate assumes lower prices for agricultural inputs, caused by the world economic crisis, and the consequent lowering of production costs for farmers. However, these factors are also causing local farmers to invest less in their production capabilities. The severe local drought, and the GoA's economic policies vis-`-vis the agricultural sector, are also affecting potential sales. Ernesto Ambrossetti, head of the Institute, talked to the press and said that "the government has been stubborn regarding the agricultural sector." He added that he estimates the total cultivated area for this harvest at 28.9 million hectares, 1.4 million less than in the previous year. Other agricultural sector analysts contest this, claiming that reduced input prices should partially compensate for other negative factors, leading to no major reduction in cultivated area.

MARTINEZ